

Galapagos's deal evolution continues with Merck tie up



[Lisa Urquhart](#)

One thing that Galapagos could give master classes in is how to land licensing agreements with big pharma companies. Today, shares in the Belgian group got a welcome boost after it announced a discovery and development deal with Merck & Co worth up to €194.5m (\$251.3m) around inflammatory diseases. The news sent shares up by 8% to €6.72, a 14 month high.

Investor should be happy because this marks the fifth deal that the small biotechnology company has struck with a big pharma partner in the last three years, demonstrating the ongoing appeal of its drug discovery platform and ambition of its management team.

The fact that Onno van de Stolpe, chief executive, also confidently predicted that the group was expecting €60m in milestone payments during the year, and that turnover would be up almost 30% from last year's €77m to €100m, will also have helped move the share price.

Deal dynamics

Under the terms of this latest agreement Galapagos is set to receive an upfront fee of €2.5m, with the bulk of the money coming from discovery, regulatory and sales milestone payments. The heavily weighted back end of the deal reflects the early stage and therefore risky nature of the collaboration.

Merck's interest has been sparked by Galapagos's proprietary SilenceSelect drug discovery platform, which specialises in producing targets for inflammatory disease. The US company has the rights to any drug from the platform based on certain drug targets, and will be responsible for development and commercialisation on a worldwide basis.

It is this platform that has also garnered the group its alliances with other big hitters in the industry. In January of this year, it entered into its first collaboration with Merck to develop potential new therapies in obesity and diabetes for an upfront fee of €1.5m and milestones of €170m.

Other interest

In December of 2007 it struck two deals in as many weeks, first with Eli Lilly to develop 12 new candidates for treating osteoporosis, with an upfront payment of €3m and potential milestones of €88m per candidate, as well as a one-time approval milestone of €130m and double digit royalties. The second was a potential €218.5m tie up with GlaxoSmithKline to discover and develop new anti-infectives.

Glaxo is also an investor courtesy of its June 2006 deal to develop osteoarthritis drugs with Galapagos, which saw Glaxo agree to pay up to €137m and also take a €3m stake in the company. Just over a year later Glaxo extended the deal to include a drug discovery programme and increased its holding in with a €4.4m equity investment

But to date the biggest deal has been Galapagos's potential €1bn tie-up in October 2007 with Janssen Pharmaceutica, a division of Johnson & Johnson, to develop treatments for rheumatoid arthritis (RA). Galapagos has recently started to see the fruits of this alliance. Last month, it announced that GLPG0259, formerly known as GT418, was entering phase I trials. If the drug makes it past phase IIa Janssen has the exclusive option to license the program which could trigger a €60 million payment in 2011.

Takeover speculation

Unsurprisingly, the attention that Galapagos is attracting had started some to speculate that the group could be takeover target. If a company was interested in Galapagos and did not mind the agreements with the multitude of other companies, it would be buying the company purely for its drug discovery capability.

One of the front runners in any race to acquire the company could be J&J which might decide that rather than paying out the various milestone payments associated with its collaboration, it might be more expedient to buy all of the company given Galapagos's \$175m market cap.

Glaxo, which has a reasonable equity stake in the company, might also want to consider its options. Galapagos has also recently made itself more attractive after it unveiled an interesting drug target, G protein-coupled receptor 3 (GPR3) that could be used for the treatment of Alzheimer's disease, this contributed to the stock being one of the best performers in the first quarter of this year ([InterMune tops small cap gainers in first quarter of 2009](#), April 2, 2009).

As such, while the company may today have been assuring shareholders its intentions are to remain independent, if the technology platform continues to deliver the decision may be taken out of Galapagos's hands.

[More from Evaluate Vantage](#)

Evaluate HQ
[44-\(0\)20-7377-0800](#)

Evaluate Americas
[+1-617-573-9450](#)

Evaluate APAC
[+81-\(0\)80-1164-4754](#)

© Copyright 2023 Evaluate Ltd.